Price difference between the institutional offer price and the retail offer price in an initial public offering (IFRS 2 *Share-based Payment*)—July 2014

The Interpretations Committee received a request to clarify how an entity should account for a price difference between the institutional offer price and the retail offer price for shares issued in an initial public offering (IPO).

The submitter refers to the fact that the final retail price could be different from the institutional price because of:

a. an unintentional difference arising from the book-building process; or
b. an intentional difference arising from a discount given to retail investors by the issuer of the equity instruments as indicated in the prospectus.

The submitter described a situation in which the issuer needs to fulfil a minimum number of shareholders to qualify for a listing under the stock exchange’s regulations in its jurisdiction. In achieving this minimum number the issuer may offer shares to retail investors at a discount from the price at which shares are sold to institutional investors.

The submitter asked the Interpretations Committee to clarify whether the transaction should be analysed within the scope of IFRS 2.

The Interpretations Committee considered whether the transaction analysed involves the receipt of identifiable or unidentifiable goods or services from the retail shareholder group and, therefore, whether it is a share-based payment transaction within the scope of IFRS 2. Paragraph 13A of IFRS 2 requires that if consideration received by the entity appears to be less than the fair value of the equity instruments granted or liability incurred, then this situation typically indicates that other consideration (ie unidentified goods or services) has been (or will be) received by the entity. The Interpretations Committee noted that applying this guidance requires judgement and consideration of the specific facts and circumstances of each transaction.

In the circumstances underlying the submission, the Interpretations Committee observed that the entity issues shares at different prices to two different groups of investors (retail and institutional) for the purpose of raising funds, and that the difference, if any, between the retail price and the institutional price of the shares in the fact pattern appears to relate to the existence of different markets (one that is accessible to retail investors only and another one accessible to institutional investors only) instead of the receipt of additional goods or services, because the only relationship between the entity and the parties to whom the shares are issued is that of investee-investors.

Consequently, the Interpretations Committee observed that the guidance in IFRS 2 is not applicable because there is no share-based payment transaction.

The Interpretations Committee also noted that the situation considered is different to the issue on which it had issued an agenda decision in March 2013 (‘Accounting for reverse acquisitions that do not constitute a business’). In that fact pattern the Interpretations Committee observed that the accounting acquirer received a stock exchange listing from the listed non-operating entity, which the listed non-operating entity had previously possessed and was able to transfer to the accounting acquirer. In that agenda decision the Interpretations Committee concluded that any difference in the fair value of the shares deemed to have been issued by the accounting acquirer and the fair value of the accounting acquiree’s identifiable net assets represents a service received by the accounting acquirer.

The Interpretations Committee observed that in the fact pattern considered in this submission the listing is not received from the institutional or retail shareholders. It further observed that the fair value of the shares issued to retail investors is different from the fair value of the shares issued to institutional investors. The fact that a regulatory requirement is met by virtue of issuing the retail shares does not indicate that unidentifiable goods or services were received from the purchasers.

On the basis of this analysis, the Interpretations Committee determined that, in the light of the existing IFRS requirements, sufficient guidance exists and that neither an Interpretation nor an amendment to a Standard was necessary. Consequently, the Interpretations Committee decided not to add this issue to its agenda.